



Addressing Underreporting- The Soft Notice Approach

IRS Nationwide

2008

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The Tax Gap and AUR

- Difference between tax that should be paid and amount actually paid on a timely basis
- Three main components
 - Nonfiling
 - Underpayment
 - Underreporting
- AUR program combats underreporting

The AUR Program

- Third parties including employers, banks and brokers provide information returns to the IRS
- IRS matches amounts reported on individual tax and information returns
- Initial match begins *after* processing all tax returns and information returns

The AUR Program

- Available AUR inventory is the resulting mismatches
- Cases are selected from the available inventory and are reviewed by IRS technicians
- Generally, IRS issues CP 2000 notice to taxpayer for discrepancies that remain unresolved

Notice CP 2000

- Notice CP 2000 proposes changes to income, payments, credits and/or deductions and includes a calculation of tax based on those proposed changes
- Responses to the CP 2000 could result in a no-change, a refund, an assessment of additional tax or the issuance of a Statutory Notice of Deficiency

AUR Impact – FY 2007

- Nearly 3.5 million CP 2000 notices were issued
- The AUR program generated increased tax revenue totaling more than \$5 billion

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Addressing the Tax Gap

- Continuing efforts to reduce the Tax Gap triggered development of an alternative treatment to address the unselected mismatches

The Problem

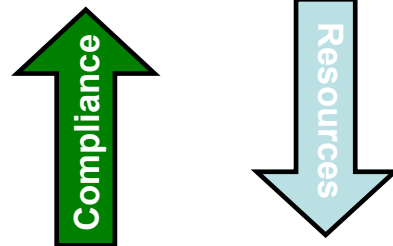
Soft Notice CP 2057

- AUR compliance efforts touch 4-5 million taxpayers annually
- The Soft Notice approach is being developed to reduce the tax gap through voluntary compliance
- Initial efforts with the Soft Notice indicated a significant number of individuals filed an amended return and did not repeat underreporting in the subsequent year

Soft Notice CP 2057

The Constraint

How can AUR improve compliance



with minimal additional resource expenditures?

The Procedures

TY03-TY04: AUR sent a total of 2,505 Soft Notices to multiple types of taxpayers, with results pointing to the need to expand the Soft Notice initiative.

Total Results (from both tests):

- ▶ 1040x filed: $\approx 25\%$
- ▶ Subsequent year Behavior Correction: $\approx 78\%$
- ▶ Phone Calls Received: $\approx 13\%$

Soft Notice CP 2057

- The 2008 Soft Notice Initiative will include a sub sample of each of the major income categories in tax year 2007 cases .
- Soft Notices are scheduled to be mailed in mid-October 2008.



Responding to the CP 2057

- Taxpayers receiving the notice are instructed to:
 - file an amended return form 1040X if they had underreported in error
 - correct information documents reported to IRS in error
- Taxpayers that receive a Soft Notice and repeat their behavior will be identified in the following tax year

Reminders

- Keep good records of all annual income
- Report all income and follow the form instructions for where to report it
- Review the return before it is filed to ensure it includes all income
- Make sure payers have taxpayer's most current address